WESLEY E. OVERSON (CA SBN 154737)
WOverson@mofo.com
DANIEL P. MUINO (CA SBN 209624)
DMuino@mofo.com
DAISY DANIELLE COLEMAN (CA SBN 248456)
DColeman@mofo.com
MORRISON & FOERSTER LLP
425 Market Street
San Francisco, California 94105-2482
Telephone: 415.268.7000
Facsimile: 415.268.7522

Attorneys for Defendant
BAYER CORPORATION

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

SAN FRANCISCO TECHNOLOGY INC.,

Plaintiff,

v.

THE GLAD PRODUCTS COMPANY, BAJER DESIGN & MARKETING INC., BAYER CORPORATION, BRIGHT IMAGE CORPORATION, CHURCH & DWIGHT CO. INC., COLGATE-PALMOLIVE COMPANY, COMBE INCORPORATED, THE DIAL CORPORATION, EXERGEN CORPORATION, GLAXOSMITHKLINE LLC, HI-TECH PHARMACAL CO. INC., JOHNSON PRODUCTS COMPANY INC., MAYBELLINE LLC, MCNEIL-PPC INC., MEDTECH PRODUCTS INC., PLAYTEX PRODUCTS INC., RECKITT BENCKISER INC., ROCHE DIAGNOSTICS CORPORATION, SOFTSHEEN-CARSON LLC, SUN PRODUCTS CORPORATION, SUNSTAR AMERICAS INC.,

Defendants.

Case No.: CV10-00966 JF PVT

Judge: Hon. Jeremy Fogel
Date: July 8, 2010
Time: 1:30 p.m.
Courtroom: 3, 5th Floor

DEFENDANT BAYER CORPORATION'S REPLY IN SUPPORT OF MOTION TO DISMISS

Complaint Filed: March 5, 2010

I. INTRODUCTION

Plaintiff San Francisco Technology Inc. ("SFTI") submitted two opposition briefs (Dkt. Nos. 210 and 212) responding to issues raised by defendant Bayer Corporation ("Bayer") in its motion to dismiss (SFTI's consolidated opposition briefs also addressed issues raised by other defendants). Specifically, SFTI's opposition briefs address three issues raised by Bayer:

First, SFTI argues that it has standing to pursue claims for false patent marking in this case, even though it admits it has suffered no personal injury and does not compete with Bayer in the market for the allegedly falsely marked goods. SFTI suggests that the Federal Circuit's recent ruling in *Pequignot v. Solo Cup* resolved the issue of standing in false patent marking actions, but the Federal Circuit did not discuss standing in that decision. For the reasons articulated in *Stauffer v. Brooks Brothers* (currently on appeal to the Federal Circuit), SFTI's Complaint should be dismissed for failing to plead an injury-in-fact to SFTI or anyone else, and therefore failing to establish standing.

Second, SFTI contends that a claim for false patent marking need not be pled with particularity as required by Rule 9(b). Alternatively, SFTI argues that its Complaint is pled with sufficient particularity to satisfy Rule 9(b). SFTI is wrong on both counts. As recognized by the Federal Circuit in *Pequignot v. Solo Cup*, false patent marking is a fraud-based claim. Accordingly, it is subject to the heightened pleading requirement of Rule 9(b). In any event, even under the ordinary pleading requirements of Rule 8, SFTI's Complaint fails to adequately plead that Bayer intended to deceive the public when it marked its products.

Third, SFTI argues that Bayer Corporation is a proper defendant in this proceeding because its name appears on the packaging of the accused product. However, as established by the accompanying declaration of Ray Garguilo, the accused product is actually owned by Bayer HealthCare LLC, not Bayer Corporation. Because Bayer Corporation is the wrong defendant, SFTI's Complaint against Bayer Corporation should be dismissed.

II. ARGUMENT

A. SFTI Has Failed to Establish Standing

SFTI concedes that "a defect in a plaintiff's standing deprives a federal court of subject matter jurisdiction." (Dkt. No. 212 at 1.) SFTI also admits that it does not compete with Bayer in the marketplace and has suffered no cognizable injury from Bayer's alleged false patent marking. (*Id*.) Nonetheless, SFTI insists that it has standing to pursue its claims against Bayer. SFTI's position is contrary to clear case authority. *See Stauffer v. Brooks Bros.*, 615 F. Supp. 2d 248, 254 (S.D.N.Y. 2009).

SFTI argues that in the Federal Circuit's recent decision in *Pequignot v. Solo Cup*, the court determined that a *qui tam* relator who suffered no personal harm and did not compete in the market for falsely marked goods has Article III standing. SFTI misrepresents the *Pequignot* decision. The Federal Circuit's *Pequignot* opinion did not address the standing issue at all. The only reference to subject matter jurisdiction in the opinion was the single, perfunctory statement, "We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1)." *Pequignot v. Solo Cup Co.*, No. 2009-1547, 2010 U.S. App. LEXIS 11820, at *10 (Fed. Cir. June 10, 2010). While the district court in *Pequignot* did discuss standing, the parties did not raise that issue before the Federal Circuit and the issue was not mentioned in the appellate court's opinion. *See* Brief of Appellant, No. 2009-1547,2009 WL 4248800, at 2-3 (Fed. Cir., filed Nov. 9, 2009); *Pequignot v. Solo Cup Co.*, No. 2009-1547, 2010 U.S. App. LEXIS 11820 (Fed. Cir. June 10, 2010). By contrast, the Federal Circuit will squarely address the standing question in *Stauffer v. Brooks Brothers, Inc.*, Fed. Cir. Appeal Nos. 2009-1428, 2009-1430, 2009-1453: specifically, whether a private party has Article III standing to bring an action for false patent marking despite having suffered no cognizable injury.

SFTI fails to allege any cognizable injury to establish Article III standing. Indeed, SFTI admits that it has not suffered any cognizable injury. Instead, SFTI contends that harm is not an element of a false marking claim, and thus SFTI is not required to plead that it suffered any injury. SFTI is mistaken. *Qui tam* relators, like all plaintiffs, must plead an injury-in-fact to establish Article III standing. *See Vt. Agency of Natural Res. v. U.S. ex rel. Stevens*, 529 U.S.

765, 771, 773-74 (2000). Specifically, SFTI, as a *qui tam* relator, must plead an actual or imminent injury to itself, the United States economy, or the public. *See Stauffer v. Brooks Bros., Inc.*, 615 F. Supp. 2d 248, 255 (S.D.N.Y. 2009). SFTI's Complaint is devoid of allegations of any injury to anyone.

The decisions cited by SFTI do not support its argument that pleading harm is unnecessary. SFTI observes that the Federal Circuit in *Forest Group, Inc. v. Bon Tool*, a case involving a *competitor's* false marking claim, stated *in dicta* that a non-competitor plaintiff has standing to bring a false marking claim. (Dkt. No. 212 at 2 (*citing Forest Group Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1303-04 (Fed. Cir. 2009)).) But that decision did not squarely address standing and it did not state that a *qui tam* relator does not have to allege *any* harm to *anyone*. Likewise, neither *Juniper Networks* nor *Harrington* supports that proposition. *See Juniper Networks v. Shipley*, No. C 09-0696 SBA, 2010 U.S. Dist. LEXIS 24889, at *16-17 (N.D. Cal. Mar. 16, 2010); *Harrington v. CIBA Vision Corp.*, No. 3:08-cv-00251-FDW-DCK, text order (W.D.N.C. May 22, 2009). In finding standing, those district courts determined that the Government's sovereign interest was enough for a false marking case.

By contrast, the district court in *Stauffer* carefully considered the standing issue and determined that a false marking plaintiff lacking personal injury did not have standing. *Stauffer*, 615 F. Supp. 2d at 255. The *Stauffer* court stated that it "doubts that the Government's interest in seeing its laws enforced could alone be an assignable, concrete injury in fact sufficient to establish a *qui tam* plaintiff's standing." *Id.* at 254 n.5. In *Stauffer*, the complaint "fail[ed] to allege with any specificity an actual injury to any individual competitor, to the market for bow ties, or to any aspect of the United States economy." *Id.* at 255.[1]

The deficiencies in SFTI's Complaint are even greater than those in the complaint that the district court dismissed in *Stauffer*. SFTI has not alleged any injury-in-fact to anyone that would

[1] To the extent there is a split in authorities at the district court level, it illustrates the importance of the Federal Circuit's upcoming decision in *Stauffer* that will resolve the standing issue.

support Article III standing. Thus, the Complaint should be dismissed under Rule 12(b)(1) for lack of subject matter jurisdiction.

B. False Marking Is A Species of Fraud That Must Be Pled With Particularity Under Rule 9(b)

SFTI asks this Court to find that false marking is not a fraud-based claim, inviting the Court to ignore other courts' recognition of false marking as a species of fraud. The Court should decline SFTI's invitation.

As confirmed by the Federal Circuit's recent ruling in *Pequignot*, false patent marking is a fraud-based claim. *See Pequignot*, 2010 U.S. App. LEXIS 11820, at *16 ("the fact of misrepresentation coupled with proof that the party making it had knowledge of its falsity is enough to warrant drawing the inference that there was a *fraudulent intent*") (emphasis added) (*quoting Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1352 (Fed. Cir. 2005)); *Juniper Networks*, No. C 09-0696 SBA, 2009 WL 1381873, at *4 (N.D. Cal. May 14, 2009) ("[t]he false marking statute is a fraud-based claim, which is subject to the pleading requirements of Federal Rule of Civil Procedure 9(b)"); *London v. Everett H. Dunbar Corp.*, 179 F. 506, 508 (1st Cir. 1910) ("the statute [a predecessor of Section 292] must be read as making the *fraudulent purpose of intent to deceive* the public the gravamen of the offense, and the marking as the overt act whereby the intent is made manifest") (emphasis added); *Stauffer*, 615 F. Supp. 2d at 254 ("[b]y its terms, the statute seeks to protect the public not simply from false marking of unpatented articles but instead from false marking that is *fraudulent*, deceptive, and intentional") (emphasis added).

Because false patent marking is a fraud-based claim, Rule 9(b) applies and requires that the plaintiff must "state with particularity the circumstances constituting fraud or mistake." *See Kearns v. Ford Motor Co.*, 567 F.3d 1120, 1125 (9th Cir. 2009) (noting that when a claim is "grounded in fraud" or "sound[s] in fraud," the pleading as a whole must satisfy the particularity requirement of Rule 9(b)).

SFTI argues that "[m]any torts that include false or deceptive conduct are not fraud and are therefore governed by the 'simplified pleading standard' of Rule 8." (Dkt. No. 210 at 3.) For

this proposition, SFTI cites *Swierkiewicz v. Sorema N.A.*, 534 U.S. 506, 513 (2002). *Swierkiewicz* is inapposite. There, the Supreme Court stated that Rule 8(a) generally applies in civil actions with limited exceptions. *Id.* The Supreme Court specifically held that heightened pleading under Rule 9(b) was not required for employment discrimination. *Id.* The decision did not address false marking.

SFTI primarily relies on *Astec America, Inc. v. Power-One, Inc.*, a case in the Eastern District of Texas, to argue that Rule 8 should apply to false marking claims, not Rule 9(b). In one brief paragraph, the *Astec* court noted that the plaintiff had provided no case authority that Rule 9 applies to a false marking claim. *Astec Am., Inc. v. Power-One, Inc.*, No. 6:07-cv-464, 2008 U.S. Dist. LEXIS 30365, at *33-34 (E.D. Tex. Apr. 11, 2008). The court suggested instead that Rule 8 applies. *Id.* The *Astec* court then analyzed the false marking claim "assuming that a false marking claim must be pled with particularity" and concluded that the plaintiff did not need to plead any greater specificity than to identify the defendant as the corporate entity responsible for the false marking. *Id.*[2]

A court in the Northern District of California has distinguished *Astec*. In *Juniper Networks*, the district court stated "[s]etting aside the *Astec* court's failure to cite any compelling authority or provide analysis to support [the suggestion that Rule 9(b) does not apply], the Court notes . . . that in [the Ninth] Circuit fraud-based claims are subject to Rule 9(b)." 2009 WL 1381873, at *4 n.3. For the reasons identified in *Juniper Networks*, the *Astec* decision should not be followed on the issue of whether Rule 9(b) applies.

Apparently recognizing the weakness of its position, SFTI alternatively argues that its Complaint is sufficient under Rule 9(b). SFTI points to its allegation that each defendant "marks its products with patents to induce the public to believe that each such product is protected by each patent listed and with knowledge that nothing is protected by an expired patent. Accordingly, [each defendant] falsely marked its product with intent to deceive the public." (Dkt.

[2] Here, SFTI did not get the corporate entity right. SFTI sued Bayer Corporation, rather than the proper party Bayer HealthCare LLC, as discussed further below in Section C.

No. 210 at 5-6.) This allegation was based solely "[u]pon information and belief." Compl. (Dkt. No. 1) ¶ 61.

SFTI has not pled sufficient facts to support its allegations that Bayer acted with intent to deceive the public. Alleging knowledge of a false statement, without more, is not enough. As established by the Federal Circuit's ruling in *Pequignot*, the false marking statute requires that the alleged marker act "for the purpose of deceiving the public." *Pequignot*, 2010 U.S. App. LEXIS 11820, at *17 (citing 35 U.S.C. § 292(a)). "[A] purpose of deceit, rather than simply knowledge that a statement is false, is required." *Id*. Likewise, merely alleging that a product was marked with an expired patent number is not sufficient. The false marking statute requires a showing of intent to deceive the public, not simply intent to mark a product with an expired patent. *Id.* at *20, 22 ("Solo's leaving the expired patent numbers on its products after the patents had expired, even knowingly, does not show a 'purpose of deceiving the public'"). SFTI's bare bones allegations fail to state with particularity the circumstances constituting fraud for a false marking claim as required by Rule 9(b).

Moreover, even under Rule 8(a)'s general notice pleading standard, SFTI's Complaint should be dismissed for failure to state a claim because the Complaint lacks factual content that would suggest the requisite intent to deceive. "Rule 8(a)(2) still requires a 'showing,' rather than a blanket assertion, of entitlement to relief." *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555-57 (2007) (stating that factual allegations in the complaint must also provide "'grounds' on which the claims rests," "possess enough heft to 'sho[w] that the pleader is entitled to relief,'" and "must be enough to raise a right to relief above the speculative level.") (citations omitted). The complaint must contain more than labels and conclusions or a formulaic recitation of the elements of a claim. *Id.* at 555. SFTI's Complaint contains a single allegation regarding intent; SFTI pled, based on information and belief, that Bayer allegedly marked its products to induce the public to believe the products were patented. *See* Compl. (Dkt. No. 1) ¶ 61. The Complaint provides no facts to support this bare assertion. As such, SFTI's allegation amounts to nothing more than mere labels and conclusions and does not satisfy the general pleading standard under Rule 8(a)(2).

For these reasons, SFTI's Complaint fails to meet the pleading standards under Rule 9(b) or 8(a) and should be dismissed under Rule 12(b)(6) for failure to state a claim.

C. SFTI Has Sued the Wrong Party

This action should also be dismissed pursuant to Rule 12(b)(7), because SFTI failed to join Bayer HealthCare LLC as an indispensable party. The Complaint names the wrong party. SFTI alleges that Bayer Corporation falsely marked the Ketostix products, but the owner of the Ketostix product is Bayer HealthCare LLC, not Bayer Corporation. *See* Declaration of Ray Garguilo, filed herewith, ¶ 4. Bayer HealthCare LLC, as the current holder of rights to the Ketostix product, has an interest in the outcome of this action. *See Shermoen v. United States*, 982 F.2d 1312, 1317 (9th Cir. 1992) (stating the "court must consider whether 'complete relief' can be accorded among the existing parties, and whether the absent party has a 'legally protected interest' in the subject of the suit") (citation omitted). If SFTI were to prevail on its false marking claim, it would directly and substantially affect the rights and liability of Bayer HealthCare LLC. Disposition of the action in Bayer HealthCare's absence will impede its ability to protect its interest in the Ketostix product. The proper defendant is Bayer HealthCare LLC. Because Bayer Corporation is the wrong party, SFTI's claims against Bayer Corporation should be dismissed.

The Court should also dismiss SFTI's claims against Bayer Corporation under Rule 12(b)(4) for insufficient process. The summons was improperly directed to Bayer Corporation rather than Bayer HealthCare LLC.

III. CONCLUSION

For the reasons stated above, the Court should dismiss SFTI's Complaint pursuant to Rule 12(b)(1) for lack of standing, Rule 12(b)(6) for failure to state a claim, Rule 12(b)(7) for failure to sue an indispensable party, and Rule 12(b)(4) for insufficient process.

Dated: June 24, 2010

Respectfully submitted,

By: */s/ Daniel P. Muino*

WESLEY E. OVERSON
DANIEL P. MUINO
DAISY DANIELLE COLEMAN

Attorneys for Defendant
BAYER CORPORATION

CERTIFICATE OF SERVICE

The undersigned certifies that on June 24, 2010, the foregoing document was filed with the Clerk of the U.S. District Court for the Northern District of California, using the court's electronic filing system (ECF), in compliance with Civil L.R. 5-4 and General Order 45. The ECF system serves a "Notice of Electronic Filing" to all parties and counsel who have appeared in this action, who have consented under Civil L.R. 5-5 and General Order 45 to accept that Notice as service of this document.

/s/ Daniel P. Muino
DANIEL P. MUINO

Attorney for Defendant
BAYER CORPORATION